

Testimony of Alan Welp
Before the
U.S. House of Representatives Committee on Agriculture
Greeley, Colorado
May 8, 2006

Mr. Chairman, thank you for the opportunity to appear before the House Agriculture Committee today. My name is Alan Welp, and I am a third generation sugarbeet grower from Wray, Colorado. My wife, Marilyn and I and our children operate our farm, which has been in our family for over 80 years. Our 2,900 acre diversified farming operation consists of 1,300 acres of corn, 700 acres of sugarbeets, 700 acres of wheat, 120 acres of pinto beans and 50 acres of alfalfa, and we raise 1600 head of feeder cattle in a custom feed lot. Our two sons own and manage a 140-head cow calf operation.

Today, I would like to tell you about my experience with the 2002 sugar program. But first, I want to say how pleased we are to have two Coloradans on the Committee, especially our hometown representative, Congresswoman Musgrave, and Congressman Salazar. We believe that they are strong voices on the Committee, and look forward to working with them in the development and passage of the next farm bill.

A greatly changed U.S. sugar industry--positioning to survive: The U.S. sugar industry has seen and adapted to tremendous change over the last ten years. That is particularly true for the sugarbeet growers in the mountain states of Colorado, Nebraska, Wyoming and Montana. For decades, two competing sugar companies processed our sugarbeets. Given low sugar prices and higher production and processing costs, the corporate processors decided to exit the business. If the industry was to survive, it was incumbent upon growers to become the owners and incur substantial debt to stay in the sugar business.

During the development of the 2002 Farm Bill, then-Secretary of Agriculture Ann Veneman encouraged producers throughout agriculture to invest in the value-added portion of their raw commodities. "Move up the value chain" was a constant message being sent to producers so that more income could be generated in the marketplace, rather than from direct government income supports. Our 1,500 family farmers in four states took the Administration's advice. With the help of many of our local banks and other financial institutions in the region, we took on substantial debt to pay \$90 million to purchase the Western Sugar Company and its six factories from the multinational British firm, Tate and Lyle. After the successful purchase of the company, we were not only proud that our company was once again American-owned, but more importantly, it was *farmer-owned*.

The reasons that farmers needed to rescue our company go well beyond the business of producing sugar. First, the 200,000 acres of sugarbeets in the four-state region are an essential alternative to other crops that are in a constant and burdensome surplus. We know first-hand from a bankruptcy of the Great Western Sugar Company in 1984 that when acres go out of sugarbeets into other crops, there is a significant price depressing effect on other alternative commodities.

Second, the loss of processing factories and an alternative high-value crop has a significant price depressing effect on the land values that support the tax base essential to local schools and communities. The sugar industry provides good paying factory jobs and requires many local goods and services from small independent businesses. It is the cornerstone for one of the best rural development programs there is, and it doesn't cost the taxpayer one dime.

Since the purchase and the passage of the 2002 Farm Bill, we have had to manage many challenges, including relatively low sugar prices as a result of less sugar demand and mandatory imports under trade agreements. These market conditions resulted in the domestic industry's storage (at the growers' expense) of up to one million tons of sugar--or one tenth of total U.S. consumption. Sustained drought brought very difficult growing conditions, warm winters have challenged our ability to store our crop, and skyrocketing energy costs have threatened us on the farm and in the factories. High natural gas costs make drying the sugarbeet pulp, which is the tissue left from the beet after the sugar is extracted, uneconomical. This high-protein cattle feed now must be fed locally, because if it cannot be dried it cannot be exported to our traditional markets in Japan or Europe. In 2004, the combination of these factors, along with urban encroachment, forced us to close and sell the factory located right here in Greeley.

National Security and Food Security: This Committee knows full well the importance of food security as a key pillar to overall national security. U.S. sugar farmers play a key role in supplying an essential food ingredient to the America's abundant and affordable food supply. Sugar is pure and all-natural, has only 15 calories per teaspoon, and provides unique and critical properties in food production. It's not just a low calorie sweetener. We supply more than 30 different sugars and syrups in hundreds of different packages to the marketplace for our customers, who demand high-quality sugar, delivered to them when they want it and where they want it, at the lowest possible cost. As producers and owners of our cooperatively-owned processing company, we bear the financial burden of holding and managing our customer's inventories to reduce their costs and maximize their profits.

When the three hurricanes ravaged production in Florida and Louisiana last fall, one cane sugar refinery shut down for four months, causing supply and price challenges for a few customers who decided to gamble with the market and did not lock in both supply and substantially lower prices, as the vast majority of customers did before the hurricanes. Under the provisions of the current sugar policy, the Administration released domestic stocks of refined sugar and imports were increased to supply the market. Inventories that had been held off the market were released, helping to ease the short term shortages resulting from hurricane damage, and the program has worked quite well under very adverse conditions.

On the other hand, the quality and availability of imported refined sugar has been very problematic because much of it is of such poor quality that it has to be reprocessed. This clearly reinforces the essential need to maintain current domestic refining capacity. With a more balanced market, sugar prices have strengthened, but we will need every cent to help offset huge increases in our fuel and fertilizer costs. In addition, consumption appears to be expanding once again, which is helpful. Our

company and farmers, like others in our industry who have made a similar transition to farmer ownership, remain in a financially fragile position, and we need a few good years to pay down and pay off our debts.

As a result of this experience, three conclusions should be drawn. **First**, our nation cannot allow further reduction of refining capacity. Through a huge consolidation in the domestic sugar industry, we now have a very efficient but very tight supply chain for consumers and industrial users. This is a direct result of a sustained period of low prices for producers that caused considerable realignment and consolidation in our industry. Over the last 10 years, 33 sugarbeet and sugar cane factories and refineries have closed permanently. You will find that both sugar producers and customers agree that it is not in our country's best interest to lose any more refining capacity.

Second, it is in the best interest of our nation's food security to have a geographically- diverse industry to minimize the impact of hurricanes, droughts, floods, disease, etc., that can affect production in any region of the country. As energy-related costs continue to climb and inflation increases costs overall, real declining prices suffocate earnings and eventually threaten the survival of farmers like me.

Third, the current U.S. sugar program has worked successfully under the most adverse conditions to assure America's food security as an important part of our national security.

As we look to the future, all of agriculture faces significantly higher input costs, and we will need further efficiencies and adequate returns to survive. We have invested millions of dollars in our factories to achieve this. On the farm, we are working toward the introduction of herbicide-resistant seed varieties using biotechnology.

Sugarbeet farmers understand the pressures on the staggering and unsustainable budget deficit, and that is why we support our current policy, which has run at no cost to the taxpayer. A no-cost sugar program continues to help reduce the deficit and provide scarce federal dollars for income support for other commodities.

The changing and challenging global sugar market: For decades, sugar producers around the world have dumped their surplus production into the world market at prices that are often well below the cost of production anywhere in the world. They are able to do so because of very low labor, safety, social and environmental costs, and they make their profits from domestic sales and sales under preferential trading arrangements with developed countries at profitable prices. Additionally, foreign governments have a vast array of domestic and trade policies that effectively isolate their industries from the threat of dumped sugar. A summary of both the transparent and non-transparent sugar domestic support programs and predatory export policies by major sugar-producing and exporting countries is attached to this testimony. As you can see, there is nothing fair or free about the world sugar market.

Our producers have long been globally competitive with foreign producers. In fact, half of the sugar grown in the world is produced at a higher cost than in the United States. We can compete if we all play by the same rules. Unfortunately, the

world we live in is plagued with distortions. Furthermore, our farmers are deeply concerned that the current negotiations in the World Trade Organization will not correct the hidden domestic policies that currently give the developing countries--that produce and export 75% of the world's sugar--an unfair advantage in the global marketplace. Any agreement must address the hidden domestic policies that prop up those foreign industries and allow them to dump their surpluses on the world market at prices below the world average cost of production. We ask that you watch this aspect of the negotiations very closely.

The threats from trade agreements (current and future): U.S. sugar policy allows globally-competitive American sugar farmers to compete fairly against foreign governments that subsidize and protect their less efficient producers. It is a policy that responds to unfair predatory trade practices while providing significant market access. Typically we are the fourth largest net sugar importer in the world, but as a result of last year's hurricanes, we will be the second largest this year.

The threat of more imports as a result of various trade agreements makes our farmers the residual suppliers to our own market. Our government guarantees minimum access to our market for forty-one countries under the WTO, NAFTA, CAFTA and other pending FTAs like Peru, Columbia, but our farmers have no such guarantees or assurances. The message from them is loud and clear: It's time to put American farmers first by providing adequate access to our own market. If we need additional imported sugar, as we did this year, our FTA trading partners should be given preference.

Additionally, the country continues to pile up record trade deficits that threaten our economic stability. With a trade deficit at \$804.5 billion in 2005 that is expected to climb to \$950 billion this year, we have to stop making domestic and international trade policies that continue to make the problem worse. Every ton of imported sugar adds \$440 to that trade deficit.

The only effective way to address foreign subsidies is in the WTO, but negotiations are clearly struggling, and it is unclear what a final agreement will look like or when it will be completed. Therefore, writing a farm bill prior to the conclusion of the negotiations would send the message that we are either willing to make unilateral concessions in anticipation of an agreement, or ignore the negotiations and write a long-term farm bill. It seems to me that either scenario only makes it more difficult to bring the negotiations to a conclusion.

Therefore, we believe that it is in the best interest of our industry and American agriculture to simply extend the current farm bill as is and focus on concluding the WTO negotiations. The bottom line is, don't amend, just extend.

Thank you, Mr. Chairman, for the opportunity to testify today. We look forward to working with you in the months ahead in formulating fair and effective farm policy for U.S. farmers.

Summary of Support for Sugar Industry in Selected Countries, 2002¹

	Australia	Brazil ⁷	China ^{8,9}	Colombia	Cuba	EU ^{10,11}	Guatemala	India ¹²	Indonesia	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
TRANSPARENT SUPPORT															
Domestic Market Controls															
Production Quotas						✓			✓	✓				✓	✓
Guaranteed Support Prices			✓			✓		✓	✓					✓	✓
Supply Controls								✓							
Market Sharing/Sales Quotas				✓			✓				✓		✓	✓	
Import Controls															
Import Quota			✓						✓			✓			
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licences			✓						✓					✓	✓
Quality Restrictions							✓			✓					
Export Support															
Export Subsidies				✓				✓							✓
Single Desk Selling	✓		✓	✓	✓								✓		
NON-TRANSPARENT SUPPORT															
Direct Financial Aid															
State Ownership					✓						✓				✓
Income Support	✓	✓								✓				✓	
Debt Financing ¹	✓	✓								✓	✓	✓	✓	✓	✓
Input Subsidies ²								✓	✓		✓	✓	✓	✓	✓
Indirect Long Term Support															
R&D Subsidies								✓					✓		✓
Efficiency Programs	✓														
Ethanol Programs/Subsidies		✓		✓		✓					✓			✓	
Consumer Demand Support					✓						✓				
Average Production, 2000-02 (mmt, raw value)	4.9	19.3	7.9	2.3	3.8	18.0	1.8	19.9	1.6	0.8	5.1	1.7	2.7	5.8	2.3
Rank Among World Producers	8	2	4	13	9	3	16	1	20	24	7	18	11	6	12
Average Exports, 2000-02 (mmt, raw value) ⁹	4.5	9.5	0.4	0.9	3.0	5.7	1.2	0.1	-	-	0.7	0.1	1.1	3.0	0.4
Rank Among World Exporters	3	1	15	8	4	2	6	42	-	-	9	33	7	5	13
Domestic Wholesale Sugar Price (cents/lb) ¹⁰	13.5	8.1	16.9	21.1	0.1	30.4	18.0	12.7	19.8	65.4	25.6	16.5	17.3	11.8	27.9
Import Tariff Level (refined, a.v. or equivalent) ¹¹	0%	18%	75%	20%	10%	164%	20%	68%	20%	71%	172%	50%	46%	96%	138%

NOTES: 1. Policy information for countries was collected in June 2003, with the exception of Indonesia, which is based on the 2004/05 season.

2. Includes low interest loans, interest rate subsidies, debt relief and debt rescheduling.

3. Includes crop pre-financing, irrigation provision, land maintenance and inventory financing.

4. Japan is an importer of sugar only. It is the world's fourth largest importer of sugar, importing 1.6 million metric tons per annum on average between 2000 and 2002.

5. The Cuba wholesale price represents the heavily subsidised ration entitlement. All prices are for refined sugar.

6. Import tariffs reported in this line applied as of July 2005.

7. Brazil provides direct subsidies (income support) to producers in the North/North East region only.

8. Chinese cane and beet prices are controlled at the provincial level.

9. State trading companies account for 70% of domestic sales in China.

10. The EU provides an income support subsidy to refiners of cane sugar.

11. The EU Commission provides directives on ethanol use, though these are not binding.

12. India provides a transport subsidy for exporters.

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Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Alan Welp
Address: 27037 Co Rd 28 Wray, Col., 80758
Telephone: 970-332-5248
Organization you represent (if any): Colorado Sugarbeet Growers Association

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

Source: _____ Amount: _____

Source: _____ Amount: _____

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2004, as well as the source and the amount of each grant or contract:

Source: _____ Amount: _____

Source: _____ Amount: _____

Please check here if this form is NOT applicable to you: ☒

Signature: Alan Welp

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Alan Welp
2. BusinessAddress: ~~270~~ Welp Farms, Inc.
27037 Co. Rd. 28
Wray, Colorado 80758
3. Business Phone Number: 970-332-5245
4. Organization you represent: Colorado Sugarbeet Growers Ass.
5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:
I grow sugarbeets, corn, dry beans
alfalfa (all irrigated) and dryland
wheat and sunflowers
6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:
I have been farming for 28 years and
grew up on a farm. I received an
Associate Degree in 1978.
7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:
I am a board member of the Colorado
Sugarbeet Growers Association

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.